
AGENCY OVERVIEW**127 Office of State Tax Commissioner**

Date: 12/23/2014**Time:** 11:50:18**Statutory Authority**

North Dakota Century Code Chapters 57-01 through 57-02.

Agency Description

The Office of State Tax Commissioner is charged with the responsibility to fairly and effectively administer the tax laws of North Dakota. The Office of State Tax Commissioner consists of six separate divisions including:

- The Commissioner's Division: the administrative center of the department.
- The Legal Division: provides legal advice and counsel to the department and to the State Board of Equalization.
- The Fiscal Management Division: the financial center covering revenue accounting, accounts payable, payroll, asset management, purchasing, and budgeting.
- The Tax Administration Division: includes tax administration for individual income, corporation income, sales and use, motor fuels, financial institution, oil and gas gross production, oil extraction, alcoholic beverages, tobacco products, estate, special taxes, telecommunications gross receipts tax, applicable local option taxes, and the collection of delinquent taxes.
- The Property Tax Division: includes property and utility taxes, coal taxes, Homestead Tax Credit and Renter Refund Program, and the Disabled Veterans Property Tax Credit Program.
- The Information Management and Technology Division: responsible for leading the department's technology efforts, managing the processing of tax returns, and safeguarding taxpayer data.

Agency Mission Statement

The mission of the Office of State Tax Commissioner is to fairly and effectively administer the tax laws of North Dakota.

Agency Performance Measures

The Office of State Tax Commissioner improved its productivity by 84 percent since 1995 because of actions resulting from business process measurement and process improvement. The Tax Department's cost to collect \$1,000 in revenue for fiscal year 2013 was \$2.44 compared to \$9.64 during 1995. This equates to a numeric reduction of \$7.20 when comparing dollar amounts. Adjusting for inflation, the 1995 cost would be \$15.07 today, for a drop of \$12.63 in real terms.

The Tax Department continues to experience a significant increase in the volume of returns being processed with no increase in staff. Since 2007, the number of sales tax, individual income tax, and income tax withholding returns has increased over 30 percent. For 2014, the Department was able to lower the average turnaround time for issued refunds on electronically filed returns from 5.8 to 5.4 days. This was accomplished due to the hard work and dedication of permanent staff who worked overtime hours and several temporary employees who agreed to work beyond the end of the filing season to help.

Major Accomplishments

1. Received an appropriation of \$1.0 million during the 2013-15 biennium to implement Taxpayer Access Point (TAP) which went live in September 2014. TAP is a taxpayer-facing module with GenTax that provides secure, web-based self-service functions. This will serve as a single-point login for filing tax returns, paying tax due, registering a business, reviewing account information, viewing notices on-line, and sending many other types of requests to the department electronically. The project was completed on time and under budget.
2. Partnered with the IRS to offer the Modernized e-File (MeF) option. MeF is a web-based electronic filing system developed for use by the IRS and states. The MeF platform is faster, more convenient than paper, reduces error rates, and simplifies the tax return filing process for taxpayers.
3. Worked with software developers to provide electronic filing services to fiduciary income tax filers. As of June 2014, over 52 percent of the 40,000 business income tax returns (corporation, S corporation, partnership, and fiduciary) have been filed electronically.
4. Continued its discovery work in individual income tax, corporate income tax, and sales tax. This work resulted in an additional \$8.8 million in collections for fiscal year 2013 and \$8.0 million in fiscal year 2014.
5. Administered 2013 sales tax refund program for flood victims with no additional staff. A total of 985 refunds were processed for just over \$1.6 million.

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6. Implemented and integrated two new tax types instituted by the 2013 Legislative Assembly into the GenTax system - prepaid wireless 911 fee and withholding on royalty income.
7. Worked cooperatively with counties and cities in the state to provide education, outreach, and administration of the expanded income and asset limitations for determining eligibility for the Homestead Tax Credit program.
8. Organized a working group consisting of members from counties and various software vendors to create a standardized format for property tax statements which was created and approved by the Interim Taxation Committee to be implemented with the 2014 property tax statements.
9. Provided significant assistance to the legislature and its committees in all areas of tax law and policy development.
10. Continued to expand educational efforts by conducting seminars and workshops to interested groups around the state on various tax related issues.

Future Critical Issues

The Office of State Tax Commissioner continues to hold customer service as a top priority. Our mission statement and guiding principles emphasize this philosophy and stress the importance of providing prompt, accurate, and courteous customer service through fair and effective administration of tax laws. Future critical issues are:

Growing Workload

The growing energy development in North Dakota has resulted in a significant workload increase across the tax types administered by the Office of State Tax Commissioner.

As our economy continues to grow, the Tax Department's compliance activities in the oil and gas, sales and use, corporate and individual income, and property tax areas, along with those areas providing support services to these taxes, will require a corresponding increase. The Tax Department is experiencing significant growth in the number of original returns filed, amended returns filed, refunds issued, and an increase in outstanding taxpayer debt.

New filers have an impact on the Tax Department throughout each work unit. More time is spent by employees in various stages of working with taxpayers. The increase in the volume of filers affects the Tax Department in a variety of ways such as an increase in incoming phone calls, providing additional taxpayer assistance, an increase in mailroom duties, more return corrections, an increase in audit and compliance activities, and more billing and collections work. Not only does increased volume significantly impact the Tax Department, but the complexity of the issues with the new taxpayers also requires additional time and creates unique compliance challenges. In addition, it impacts the development, maintenance, and enhancement of the Tax Department's Information Technology (IT) infrastructure.

Salaries and Benefits

The Office of State Tax Commissioner staff has one of the highest average years of service (almost 18 years) of all state agencies. Nearly 30 percent of current staff qualify for retirement. While the high number of possible retirements and resulting financial impact is a concern (paying retiring employees for outstanding leave balances), the greater concern is the tremendous loss of tax expertise.

To fairly and effectively administer the tax laws of North Dakota, Tax Department employees need to have a thorough knowledge of many different tax types. A strong knowledge base of current, as well as previous, tax laws and regulations is important to the overall effectiveness of the administration of tax laws. It is important that salaries and benefit packages remain competitive in order to retain high quality tax expertise. It is also important that training funds are available for ongoing educational opportunities to broaden the knowledge base and to provide the opportunity for promotion from within when a retirement occurs. By doing so, the Tax Department can continue to provide the excellent customer service to North Dakota's citizens and to the tax community at large (such as CPAs, tax practitioners, and the IRS).

Recruiting for vacant positions continues to be increasingly competitive both with outside entities and other state agencies. North Dakota's strong economy is creating opportunities for individuals seeking employment. This has resulted in a tightening labor pool as students and experienced workers are in high demand. Of particular concern is recruiting for vacant positions in the Dickinson, Minot, and Williston areas. There is also a noticeable trend that indicates Bismarck could now be included in the

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high-impact area. With the surge in energy-related businesses operating in these areas and the employment opportunities that accompany them, it is becoming increasingly difficult to compete in the available labor pool when recruiting for vacant positions.

The Tax Department is experiencing a tight labor market when recruiting for positions requiring a four-year degree, such as accounting, business, finance, and economics. In addition to the limited labor pool itself, the cost of living in the Western part of the state is also having an impact on the availability of qualified applicants.

In order to compete in the current tight job market, the Tax Department needs to offer competitive starting salaries to attract new employees. The Tax Department also needs the ability to offer salary increases to retain current staff in order to address any potential compression issues with long-tenured employees.

Continuation of contract with FAST Enterprises

The IT contractual services budget request for \$3.4 million for the next biennium will allow the Tax Department to contract with FAST Enterprises (FAST) for continued software maintenance, on-site support, service packs and upgrades for the integrated tax system (GenTax) and the Taxpayer Access Point system.

On-site FAST developers work with the Tax Department and Information Technology Department (ITD) staff to ensure GenTax is managed effectively and to increase the state's level of competence for ongoing operations and maintenance. The complexity and depth of GenTax will require ongoing support from FAST to maintain the GenTax product. The GenTax Core Code is the proprietary code for the system and access to the code is restricted to the FAST developers. Tax Department IT staff rely on the FAST developers to ensure the ongoing updates and maintenance to the GenTax core code is implemented in a timely and efficient manner.

On-site support from FAST Enterprises is a critical component to the successful use of GenTax. Ongoing development and implementation of further automation in GenTax will continue to significantly lessen Tax Department dependence on manual, labor intensive processes and it will increase our ability to timely identify taxpayers who have not complied with the state's tax laws.

Space needs/Security improvements

Providing a safe and functional office environment is important for the Tax Department's employees and customers. The Tax Department continues to look for opportunities to change the way it does business, which may require different arrangement of the current space. The Tax Department currently occupies three floors in the Capitol tower, a small area in the State Office Building, in addition to the employees located in offices in Dickinson, Williston, Minot, Grand Forks, and Fargo. Every effort has been made to locate employees in an effective and efficient manner. However, for Bismarck employees, the Capitol building has space and configuration limitations. Due to the limitations, some sections cannot be located next to others in their division – sometimes not even in the same building – limiting opportunities to create efficiencies. It would be desirable for all Tax Department employees in Bismarck to be located in the same building. This could be accomplished by obtaining another floor within the tower which would occur only if other agencies moved out. Telecommuting is not a viable option for most staff due to the need to maintain security of state and IRS tax data and due to the customer service positions that require staff to be in the office.

The Department also provides workspace for FAST Enterprises software developers that are engaged in either ongoing support for the GenTax software or for additional developers during specific projects, such as the current Taxpayer Access Point (TAP) project. The number of FAST software developers can fluctuate from four to 17.

The Tax Department has an open floor plan in the Capitol building in order to optimize the space available. However, this open floor plan does not provide for adequate waiting areas for taxpayers nor does it allow for sufficient privacy rooms for Tax Department staff to use when meeting with taxpayers. The Tax Department may need to relocate field office employees into the Capitol building if it cannot retain and/or recruit for employees to locate in the field offices, especially in the Western part of the state. The lack of efficient, configurable space would make this almost impossible and the Department would likely have to seek additional space off campus.

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The Tax Department is also committed to providing a safe environment for its employees. However, the design of the Capitol building (tower) and space constraints on the Department floors limits the ability to implement tighter security measures that could limit or restrict access. Other state agencies (ITD, WSI) and other state revenue departments across the country have much tighter security restricting direct access and requiring authorization to enter.

Temporary staff/Canadian Refunds

The Tax Department is processing more requests from Canadian shoppers seeking refunds of sales tax on their purchases. This increase in refund requests requires more time on the part of Tax Department staff to review and follow up on each request. The Tax Department staff is focused on ensuring refund requests are in compliance with the established requirements. Along with the significant increase in volume of requests received is a corresponding increase in workload. It is important that the Tax Department has the resources, specifically funding for temporary employees, to process the Canadian refund request in a timely manner. If temporary employees are unavailable or cannot be funded, other Tax Department staff, such as compliance officers, are reassigned to assist with processing. However, this reassignment of compliance staff has an impact on revenue.

Safeguarding Data and Fraud Detection

Safeguarding data has always been an important piece of the IT infrastructure. With the majority of taxpayers filing electronically, the Tax Department must safeguard its physical documents as well as its IT infrastructure where taxpayer data is stored. In addition, the increase in identity theft and fraud demand that the Tax Department must be proactive rather than reactive and continue to find new ways to protect the data. There is no realized return on investment on safeguarding data, but a breach of security would result in damages that would far exceed any costs of implementing additional safety measures. It is critical to have adequate staff dedicated to developing new fraud detection programs, updating business rules necessary to manage the ever changing fraudulent activities, and to researching new ways to prevent identity theft and fraudulent activities for the taxpayers of North Dakota.

Taxpayer Access Point (TAP)

The Tax Department is implementing TAP in late 2014. TAP is an external facing module which offers electronic services, such as electronic filing of certain taxes, for our taxpayers. TAP also allows us to communicate more effectively with those who choose to file and/or pay by this method. TAP will continue to grow as more electronic services are offered. Having IT staff to develop and maintain this module is critical.

REQUEST SUMMARY

127 Office of State Tax Commissioner
Biennium: 2015-2017

Bill#: SB2006

Date: 12/23/2014

Time: 11:50:18

Description	Expenditures 2011-2013 Biennium	Present Budget 2013-2015	Budget Request Change	Requested Budget 2015-2017 Biennium	Optional Budget Request
By Major Program					
Tax Department	24,818,186	29,562,749	(760,643)	28,802,106	2,140,697
Homestead Tax Credit	7,846,945	20,000,000	2,000,000	22,000,000	28,000,000
Disabled Veteran Credit	4,903,732	7,678,000	767,000	8,445,000	0
Total Major Program	37,568,863	57,240,749	2,006,357	59,247,106	30,140,697
By Line Item					
Salaries and Wages	17,610,689	20,177,488	1,235,713	21,413,201	1,153,524
Accrued Leave Payments	0	624,818	(624,818)	0	0
Operating Expenses	7,200,333	8,744,443	(1,371,538)	7,372,905	987,173
Capital Assets	7,164	16,000	0	16,000	0
Homestead Tax Credit	7,846,945	20,000,000	2,000,000	22,000,000	28,000,000
Disabled Veteran Credit	4,903,732	7,678,000	767,000	8,445,000	0
Total Line Items	37,568,863	57,240,749	2,006,357	59,247,106	30,140,697
By Funding Source					
General Fund	37,552,023	57,115,749	2,006,357	59,122,106	30,140,697
Federal Funds	16,840	125,000	0	125,000	0
Special Funds					
Total Funding Source	37,568,863	57,240,749	2,006,357	59,247,106	30,140,697
Total FTE	133.00	134.00	0.00	134.00	7.00

REQUEST DETAIL

127 Office of State Tax Commissioner
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Description	Expenditures 2011-2013 Biennium	Present Budget 2013-2015	Budget Request Change	Requested Budget 2015-2017 Biennium	Optional Budget Request
Salaries and Wages					
Salaries - Permanent	12,604,089	13,863,619	1,131,876	14,995,495	516,888
Salaries - Other	0	0	0	0	366,555
Temporary Salaries	245,206	208,600	(2,775)	205,825	0
Overtime	17,709	59,923	(59,923)	0	0
Fringe Benefits	4,743,685	6,045,346	166,535	6,211,881	270,081
Total	17,610,689	20,177,488	1,235,713	21,413,201	1,153,524
Salaries and Wages					
General Fund	17,610,689	20,177,488	1,235,713	21,413,201	1,153,524
Federal Funds	0	0	0	0	0
Special Funds	0	0	0	0	0
Total	17,610,689	20,177,488	1,235,713	21,413,201	1,153,524
Accrued Leave Payments					
Salaries - Permanent	0	624,818	(624,818)	0	0
Total	0	624,818	(624,818)	0	0
Accrued Leave Payments					
General Fund	0	624,818	(624,818)	0	0
Federal Funds	0	0	0	0	0
Special Funds	0	0	0	0	0
Total	0	624,818	(624,818)	0	0
Operating Expenses					
Travel	312,605	408,000	0	408,000	7,800
Supplies - IT Software	86,302	165,130	5,000	170,130	2,100
Supply/Material-Professional	87,287	117,067	4,532	121,599	0
Miscellaneous Supplies	2,918	32,000	0	32,000	0
Office Supplies	67,830	89,076	5,000	94,076	2,800
Postage	834,142	970,961	0	970,961	199,315
Printing	151,568	189,805	21,633	211,438	0
IT Equip Under \$5,000	82,853	161,451	(102,717)	58,734	11,900
Other Equip Under \$5,000	20,104	4,000	0	4,000	0
Office Equip & Furn Supplies	224,692	160,260	(12,942)	147,318	45,500
Insurance	14,990	7,981	778	8,759	0
Rentals/Leases-Equip & Other	59,886	56,629	1,920	58,549	0
Rentals/Leases - Bldg/Land	100,967	112,872	7,608	120,480	57,960
Repairs	179,901	105,411	9,488	114,899	0

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Description	Expenditures 2011-2013 Biennium	Present Budget 2013-2015	Budget Request Change	Requested Budget 2015-2017 Biennium	Optional Budget Request
IT - Data Processing	863,012	1,008,000	71,669	1,079,669	37,275
IT - Communications	189,880	191,775	0	191,775	9,154
IT Contractual Srvcs and Rprs	3,235,336	4,145,990	(934,790)	3,211,200	200,000
Professional Development	156,914	186,562	4,030	190,592	0
Operating Fees and Services	110,934	178,726	0	178,726	0
Fees - Professional Services	418,212	452,747	(452,747)	0	413,369
Total	7,200,333	8,744,443	(1,371,538)	7,372,905	987,173

Operating Expenses

General Fund	7,183,493	8,619,443	(1,371,538)	7,247,905	987,173
Federal Funds	16,840	125,000	0	125,000	0
Special Funds	0	0	0	0	0
Total	7,200,333	8,744,443	(1,371,538)	7,372,905	987,173

Capital Assets

Equipment Over \$5000	7,164	0	0	0	0
IT Equip/Sftware Over \$5000	0	16,000	0	16,000	0
Total	7,164	16,000	0	16,000	0

Capital Assets

General Fund	7,164	16,000	0	16,000	0
Federal Funds	0	0	0	0	0
Special Funds	0	0	0	0	0
Total	7,164	16,000	0	16,000	0

Homestead Tax Credit

Grants, Benefits & Claims	7,846,945	20,000,000	2,000,000	22,000,000	28,000,000
Total	7,846,945	20,000,000	2,000,000	22,000,000	28,000,000

Homestead Tax Credit

General Fund	7,846,945	20,000,000	2,000,000	22,000,000	28,000,000
Federal Funds	0	0	0	0	0
Special Funds	0	0	0	0	0
Total	7,846,945	20,000,000	2,000,000	22,000,000	28,000,000

Disabled Veteran Credit

Grants, Benefits & Claims	4,903,732	7,678,000	767,000	8,445,000	0
Total	4,903,732	7,678,000	767,000	8,445,000	0

REQUEST DETAIL

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Description	Expenditures 2011-2013 Biennium	Present Budget 2013-2015	Budget Request Change	Requested Budget 2015-2017 Biennium	Optional Budget Request
Disabled Veteran Credit					
General Fund	4,903,732	7,678,000	767,000	8,445,000	0
Federal Funds	0	0	0	0	0
Special Funds	0	0	0	0	0
Total	4,903,732	7,678,000	767,000	8,445,000	0
Funding Sources					
General Fund	37,552,023	57,115,749	2,006,357	59,122,106	30,140,697
Federal Funds	16,840	125,000	0	125,000	0
Special Funds	0	0	0	0	0
Total Funding Sources	37,568,863	57,240,749	2,006,357	59,247,106	30,140,697

CHANGE PACKAGE SUMMARY127 Office of State Tax Commissioner
Biennium: 2015-2017

Bill#: SB2006

Date: 12/23/2014

Time: 11:50:18

Description	Priority	FTE	General Fund	Federal Funds	Special Funds	Total Funds
<u>Base Budget Changes</u>						
One Time Budget Changes						
A-E 1 Remove one-time funding for Taxpayer Access Poin		0.00	(1,000,000)	0	0	(1,000,000)
A-E 4 Remove NDSU grant		0.00	(22,609)	0	0	(22,609)
Total One Time Budget Changes		0.00	(1,022,609)	0	0	(1,022,609)
Ongoing Budget Changes						
A-A 23 Base Level inflation increases and decreases		0.00	(348,929)	0	0	(348,929)
A-A 3 Reinstate capital assets - IT Equipment over \$5,		0.00	16,000	0	0	16,000
A-A 7 Homestead Tax Credit following current program c		0.00	2,000,000	0	0	2,000,000
A-A 8 Disabled Veteran Credit projected increase		0.00	767,000	0	0	767,000
A-F 2 Remove capital assets		0.00	(16,000)	0	0	(16,000)
Base Payroll Change		0.00	610,895	0	0	610,895
Total Ongoing Budget Changes		0.00	3,028,966	0	0	3,028,966
Total Base Budget Changes		0.00	2,006,357	0	0	2,006,357
<u>Optional Budget Changes</u>						
One Time Optional Changes						
A-D 100 AD100 - oil impact pay differential	6	0.00	90,426	0	0	90,426
Total One Time Optional Changes		0.00	90,426	0	0	90,426
Ongoing Optional Changes						
A-C 20 Multistate Tax Commissioner and Nexus Programs	1	0.00	413,369	0	0	413,369
A-C 21 Inflation Increase for GenTax System Support	2	0.00	200,000	0	0	200,000
A-C 22 Inflation and Volume changes for Temporary wage	3	0.00	221,315	0	0	221,315
A-C 5 New FTEs to meet critical needs - 4 FTEs	4	4.00	553,599	0	0	553,599
A-C 100 AC100 - Equity adjustments	5	0.00	254,129	0	0	254,129
A-C 6 New FTEs to meet critical needs - 3 FTEs	7	3.00	407,859	0	0	407,859
A-C 9 Homestead Tax Credit Program Expansion	8	0.00	28,000,000	0	0	28,000,000
Total Ongoing Optional Changes		7.00	30,050,271	0	0	30,050,271

CHANGE PACKAGE SUMMARY

127 Office of State Tax Commissioner

Biennium: 2015-2017

Bill#: SB2006

Date: 12/23/2014

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Description	Priority	FTE	General Fund	Federal Funds	Special Funds	Total Funds
Total Optional Budget Changes		7.00	30,140,697	0	0	30,140,697

BUDGET CHANGES NARRATIVE**127 Office of State Tax Commissioner****Bill#: SB2006****Date:** 12/23/2014**Time:** 11:50:18

Change Group: A	Change Type: A	Change No: 3	Priority:
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Reinstate capital assets - IT Equipment over \$5,000

\$16,000 - The Tax Department anticipates the need to replace one high-volume scanner during the 2015-17 biennium at a cost of \$16,000. This scanner will be used to scan tax returns and related correspondence.

Change Group: A	Change Type: A	Change No: 7	Priority:
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Homestead Tax Credit following current program criteria

\$2,000,000 – The total impact of the expanded Homestead Credit program provided during the 2013 Legislative Session has not yet been realized. Higher income and asset maximums were implemented for the 2013 tax year. The Property Tax division has been working with several assessment officials as new applications for the 2014 tax year continue to be filed. Applicants approved for 2014 have applied for an abatement or refund of taxes due to qualifying for the Homestead Credit for 2013. Additionally, as property values continue to rise, the maximum credit will be reached by more applicants.

Change Group: A	Change Type: A	Change No: 8	Priority:
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Disabled Veteran Credit projected increase

\$767,000 – Historically, the utilization of the Disabled Veteran Credit has grown by 10 to 20% per year. As more service men and women are returning home, there are likely more disabilities. Some disabilities are not reported or diagnosed immediately upon return or may be diagnosed at a later time. While the growth may not have reached the 10 to 20% level for the first year of the 2013-15 biennium, the appropriation request is projecting the continued growth.

Change Group: A	Change Type: A	Change No: 23	Priority:
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Base Level inflation increases and decreases

(\$348, 929) - Total of all Operating objects: The Tax Department's operational needs are impacted by its responsibility to effectively administer the tax laws of North Dakota, the additional operation costs resulting from Legislative changes for which no additional funding is provided, and increased rates and usage for such things as audit travel, printing, and postage. OMB guidelines for rate increases were reviewed as well as historical trends with expenditures to identify potential savings.

Specifically by operating object the changes that are being requested are:

IT software object increase of \$5,000: The Department is required to maintain licenses for Windows as well as a number of smaller software products in the course of doing business. Funding the increase requested will cover the rate increases for license renewals of software such as Windows and QuickBooks and the increase for the annual maintenance fee charged by ITD for Teleform (New in FY 2013).

Supply/Material-Professional object increase of \$4,532: This request will cover rate increases associated with tax service subscriptions needed to remain current with changes affecting state laws.

Office Supplies object increase of \$5,000: This request will cover rate increases for office supplies. OMB guidelines suggest a 3% per year increase.

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Printing object increase of \$21,633: Printing costs are anticipated to increase 3% per year per OMB guidelines. With the increase volume of outgoing mail there will be a corresponding increase in the number of envelopes purchased. The quantity of major tax forms and booklets printed is reviewed each year and the number printed has been reduced and/or made available online whenever possible.

IT Equipment under \$5,000 object decrease of (\$102,717): The department follows ITD's guidelines for replacing desktop PCs every four years and laptops every three years. We are able to show a decrease in this object because the desktop PCs, which are the largest share of the IT equipment, will be replaced in the 2013-2015 biennium. Therefore, the request for the 2015-2017 biennium covering only laptop computers and network printers is reduced.

Office Equipment & Furniture Supplies decrease of (\$12,942): It is anticipated that purchases in this object will be less in the 2015-2017 biennium.

Insurance object increase of \$778: State Fire and Tornado anticipate insurance costs to increase 5% per year. The increase requested will provide for the rate increase as well as the projected increase in replacement value of asset items.

Lease/Rents – Equipment object increase of \$1,920: The Department leases three copiers and one high volume network printer. The Department was able to extend its current lease on copiers for four additional years at a savings. This savings offsets most of the additional costs to obtain a new lease for a high volume network printer.

Lease/Rents – Buildings/Land object increase of \$7,608: This request will cover the increased cost to lease office space in Fargo, Grand Forks, Minot, Williston, and Dickinson. Rate increases in Dickinson and Williston have been significant and expect that trend to continue.

Repairs object increase of \$9,488: This request will cover the rate increases for service contracts on office equipment such as fax machines, printers, copiers, mail slicer, and folder, and janitorial service contracts. In addition, the Department is experiencing more equipment breakdowns resulting in additional labor and repair part costs.

IT – Data Processing object increase of \$136,669: This request covers the increase in rates as provided by ITD. In addition, the Department projects an increase in usage and/or storage needs increasing the funding required.

IT Contractual Services object increase of \$210: This represents the increase cost of maintenance contracts on the Department's high-volume scanners.

Professional Development (conference fees, dues) object increase of \$4,030: Professional development expenses included in this request cover the CLE requirements for Attorneys and CPAs, and conference fees for seminars, workshops and conferences covering a multitude of tax and training areas. This request also covers the dues and membership fees for the Department to participate in the Streamlined Sales Tax program, Multistate Tax Commission and Nexus programs, and the Federation of Tax Administrators program.

Professional Services object decrease of (\$430,138): This decrease is being made to offset the increase in the salary line to fully fund positions and temporary salaries in the 2015-2017 biennium and various operating increases included in the base budget and explained above. Restoration of \$413,369, which covers the funding for the Multistate Tax Commission and Nexus programs is being requested in a separate optional package. The balance is considered savings that will carry through to the 2015-2017 biennium.

Change Group: A	Change Type: C	Change No: 5	Priority: 4
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New FTEs to meet critical needs - 4 FTEs

BUDGET CHANGES NARRATIVE**127 Office of State Tax Commissioner****Bill#: SB2006****Date:** 12/23/2014**Time:** 11:50:18

\$553,599 - 4 New FTEs - Tax Department workload has increased substantially over the past seven years due to strong economic growth within the state. The volume of FTEs necessary to handle that workload has not kept pace. The Department has reduced its full time staff from a high of 157 in 1995 to 133 by 2005. The Department remained at that level until 2011 when the legislature approved one additional FTE at the Department's request. The current level of 134 FTEs is no longer sufficient to adequately manage the workload. Examples of some of the more significant increases from 2007 to 2013 are:

- The number of sales tax returns, income tax withholding returns, and individual income tax returns filed during the year each increased by approximately 33 percent since 2007.
- The number of nonresident or part-time resident individual income tax returns increased from 45,738 to 126,503, or 176 percent.
- The number of producing oil and gas wells in North Dakota increased from 3,868 to 10,015, or 159%. Production and sales volumes for each well are reported to the Tax Department monthly.
- The number of Canadian refunds processed more than doubled from 11,853 to 23,865, or 101%.

The increased number of taxpayers and returns filed has dramatically increased the workload in the functions listed below. Timely and accurate completion of these functions is critical to the success of the Tax Department's mission, which is to fairly and effectively administer the tax laws of North Dakota.

- Taxpayer assistance – The Department provides many types of taxpayer assistance, but the most common assistance is to respond to taxpayer's inquiries made in person or by phone calls, letters, and email. Taxpayers need accurate and up-to-date information on how to adequately comply with the tax laws.
- Registration – Thousands of new taxpayers are registering to remit sales, income tax, oil and gas severance, motor fuels and other special taxes. The registration activity includes establishing new accounts, maintaining current address information, and closing accounts that are no longer in business or that are changing to a new form of ownership.
- Return processing – In addition to the large increase in the number of business and personal tax returns filed, the volume and sophistication of fraudulent individual income tax returns claiming fraudulent refunds has escalated in recent years. More and more effort is needed to prevent issuing fraudulent refunds. Fraudulent refunds must be identified and denied while valid returns must be processed in a timely manner to efficiently return funds to taxpayers and avoid unnecessary interest payments by the state.
- Research – With the significant growth in the energy industry this section is seeing a corresponding increase in the number of requests to provide tax related information to new and expanding businesses, provide information and testimony to legislators - during the Legislative Session and throughout the interim - as well as working on a very complex revenue forecast and research for fiscal note preparation.
- Property Tax - Centrally assessed properties in the state have increased greatly in recent years. Growth in the wind generation and oil industries has provided increased revenue sources for local jurisdictions. The assessment of these properties is required to be performed by the Tax Department and approved by the State Board of Equalization. Between 2010 and 2014 the number of pipeline companies increased from 34 to 57. In the last three years, 7,200 miles of pipeline have been added to the central assessment rolls. An additional property tax specialist is required to ensure continued proper assessment of these properties as they expand in the state. In addition, the 2011 legislature passed SB 2294, which gave additional authority to the State Board of Equalization and will generate additional work for the property tax staff. This bill establishes an assessor certification suspension and revocation process and authorizes the Board to conduct reviews of selected properties to verify the accuracy of assessments and valuations.

In order to complete the critical functions identified above in a timely manner, the Tax Department has reassigned staff to assist. However, that is not a long-term solution. This reassignment results in lost revenue and slow customer service.

The Department is requesting four new full time employee positions in this optional package. Adding these positions would be necessary to complete the critical functions and to maintain a reasonable level of service to taxpayers. If authorized, the proposed positions will be utilized as follows:

- Compliance Officer in Sales and Special Taxes Compliance. The new compliance officer will perform various compliance activities: process amended returns, process refunds, respond to taxpayer inquiries, draft guidelines and document policies, and assist in various compliance projects.

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- Audit Technician in Taxpayer Services. This technician will work primarily in return processing and fraudulent refund prevention. Technicians in Taxpayer Services are trained to work with multiple tax types.
- Property Tax Specialist. This new FTE will be utilized to develop updated education standards for local assessment officials, monitor certification and continuing education of local assessment officials, perform on-site visits to review assessments and administration of tax laws, review sales statistics and assessments at the local level, perform utility assessment for centrally assessed properties, and assist in the distribution of centrally-assessed valuations to counties.
- Research Analyst. The demands on the Research Section have grown exponentially along with population and business growth in the state. As a member of the Research and Communications Section, this new FTE (Research Analyst) will be preparing new and augmented statistical publications for use by the media and the public, providing tax related information to new and expanding businesses, providing information and testimony to legislators - during the Legislative Session and throughout the interim - as well as assisting with revenue forecasting and fiscal note preparation.

Additional staff beyond the seven new FTEs requested in optional packages for the 2015-2017 biennium will be needed to enhance our compliance efforts and to conduct numerous projects we have already identified but are not doing because we do not have the necessary resources. To hire and train additional staff beyond these requests for additional FTE would be difficult during the next biennium.

Change Group: A	Change Type: C	Change No: 6	Priority: 7
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New FTEs to meet critical needs - 3 FTEs

\$407,860 - 3 FTEs - Tax Department workload has increased substantially over the past seven years due to strong economic growth within the state. The volume of FTEs necessary to handle that workload has not kept pace. The Department has reduced its full time staff from a high of 157 in 1995 to 133 by 2005. The Department remained at that level until 2011 when the legislature approved one additional FTE at the Department's request. The current level of 134 FTEs is no longer sufficient to adequately manage the workload. Examples of some of the more significant increases from 2007 to 2013 are:

- The number of sales tax returns, income tax withholding returns, and individual income tax returns filed during the year each increased by approximately 33 percent during the seven year period.
- The number of nonresident or part-time resident individual income tax returns increased from 45,738 to 126,503, or 176 percent.
- The number of producing oil and gas wells in North Dakota increased from 3,868 to 10,015, or 159%. Production and sales volumes for each well are reported to the Tax Department monthly.
- The number of Canadian refunds processed more than doubled from 11,853 to 23,865, or 101%.

The increased number of taxpayers and returns filed has dramatically increased the workload in the functions listed below. Timely and accurate completion of these functions is critical to the success of the Tax Department's mission, which is to fairly and effectively administer the tax laws of North Dakota.

- Taxpayer assistance – The Department provides many types of taxpayer assistance, but the most common assistance is to respond to taxpayer's inquiries made in person or by phone calls, letters, and email. Taxpayers need accurate and up-to-date information on how to adequately comply with the tax laws.
- Registration – Thousands of new taxpayers are registering to remit sales, income tax, oil and gas severance, motor fuels and other special taxes. The registration activity includes establishing new accounts, maintaining current address information, and closing accounts that are no longer in business or that are changing to a new form of ownership.
- Return processing – In addition to the large increase in the number of business and personal tax returns filed, the volume and sophistication of fraudulent individual income tax returns claiming fraudulent refunds has escalated in recent years. More and more effort is needed to prevent issuing fraudulent refunds. Fraudulent refunds must be identified and denied while valid returns must be processed in a timely manner to efficiently return funds to taxpayers and avoid unnecessary interest payments by the state.

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In order to complete the critical functions identified above in a timely manner, the Tax Department has reassigned staff to assist. However, that is not a long-term solution. This reassignment results in lost revenue and slow customer service.

The Department is requesting three new full time employee positions in this optional package. Adding these positions would be necessary to complete the critical functions and to maintain a reasonable level of service to taxpayers. If authorized, the proposed positions will be utilized as follows:

- Audit Technician in Registration. The primary responsibilities of this technician will be to assist with registration processes, respond to taxpayers' general questions, and assist taxpayers with registration and use of on-line services made available through Taxpayer Access Point (TAP).
- Audit Technician in Individual Income Taxes. The Income Tax Audit Technician will assist with processing returns for income tax withholding from both wages and royalty payments, provide taxpayer service on the phones, assist in reviewing individual income tax refunds, and assist auditors with preliminary audit work to allow the auditors to complete more complex audit work.
- Audit Technician in Sales tax Compliance. This technician will provide taxpayer assistance on the phone and in person and will assist compliance officers with numerous tasks and projects to allow the compliance officers to complete more complex work.

Additional staff beyond the seven new FTEs requested for 2015-2017 biennium will be needed to enhance our compliance efforts and to conduct numerous projects we have already identified but are not doing because we do not have the necessary resources. To hire and train additional staff beyond these requests for additional FTE would be difficult during this next biennium.

Change Group: A	Change Type: C	Change No: 9	Priority: 8
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Homestead Tax Credit Program Expansion

\$28,000,000 – This increase is requested to cover a proposed expansion to the Homestead Tax Credit program by increasing the eligibility threshold from \$42,000 to \$63,000, remove Social Security payments from the income formula, and double the maximum reduction from the first \$100,000 to the first \$200,000 in home value.

Change Group: A	Change Type: C	Change No: 20	Priority: 1
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Multistate Tax Commissioner and Nexus Programs

\$413,369 - restoring the Professional Services fees for the Multistate Tax Commission Audit and Nexus programs.

The Tax Department currently participates in the Multistate Tax Commission Audit program for both corporate income tax and sales/use tax. The program involves auditing of corporation's state tax returns, and includes 22 states in the corporate income tax audit program and 18 states in the sales/use tax program. The audits nominated by and participated in by North Dakota are generally national or multinational companies with only a moderate presence in the state. Therefore, the MTC audit program is primarily used to provide audit coverage to large companies that would otherwise be less cost effective to audit with existing audit staff.

In addition to providing additional audit coverage for the participating states, there can be efficiencies for the taxpayer in having a single audit process cover many states concurrently. On average, about 15 states participate in a typical MTC audit. While the MTC audit staff performs the audit, its audit results and recommendations are forwarded to each respective participating state and the state issues the actual assessment of additional tax, if any.

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The fee to participate in the program is an equal, flat fee for all states. As one of the five least populated states, ND receives a 10% discount on its fee. In addition, being a member of the MTC allows North Dakota to participate in the audit program for a reduced fee.

Since 2005, the return on investment for the MTC audit program has been 5 to 1.

North Dakota also participates in the MTC National Nexus program for both corporate income tax and sales/use tax. Most individual states have a Voluntary Disclosure Agreement (VDA) program in which new taxpayers can anonymously contact the state to arrange to resolve potential tax liabilities related to not filing a tax return for prior years. A VDA lays out which tax years are covered and terms for filing and payment. The MTC National Nexus program functions much like a state's own VDA program would, except that a taxpayer may contact the MTC to enter into a VDA for multiple states all at once, and there is no fee charged to the taxpayer for doing so.

Approximately 37 states participate in the MTC Nexus program. States benefit by being part of the this program because a taxpayer may be more likely to become current and compliant in the filings with a participating state and taxpayers benefit by having a central point of contact to expedite the process of becoming compliant and current in multiple states all at once.

Department staff also benefit from specialized training programs offered by MTC and participating in the program by gaining exposure to emerging compliance and audit issues in the area of state tax nexus for both income tax and sales tax, as well as sharing information with other state tax administrators. A state's membership in the MTC or in the Audit or Nexus program also allows for participating in training programs sponsored by the MTC at a reduced rate.

The return on investment for the MTC Nexus program for FY 2013 is 3 to 1 and for FY 2014 is 10 to 1.

Change Group: A	Change Type: C	Change No: 21	Priority: 2
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Inflation Increase for GenTax System Support

IT Contractual Services object increase of \$200,000: This represents the increase in cost to maintain the Department's integrated tax system and newly implemented Taxpayer Access Point (TAP) module. The service contract covers the ongoing GenTax and TAP software maintenance, on-site support, service packs, and upgrades.

In 2005, FAST Enterprises (FAST) assisted the Tax Department in the configuration, development and installation of GenTax, an off-the-shelf integrated tax system. FAST continues to provide the software maintenance, on-site support, service packs and upgrades to GenTax. Initially, the costs for any upgrades were separate from the ongoing maintenance and on-site support, requiring the Tax Department to request additional funds every biennium to cover upgrades. Since the 2011-2013 biennium, the Tax Department has been able to negotiate a bundled plan to cover software maintenance, on-site support and any upgrades at a savings to the State. The request for \$200,000, which is an increase of 6.25% for the biennium, is the first increase in service costs by FAST in four years and is necessary for the Department to continue receiving software maintenance, on-site support, service packs and upgrades to GenTax and TAP during the 2015-2017 biennium.

Change Group: A	Change Type: C	Change No: 22	Priority: 3
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Inflation and Volume changes for Temporary wages and Postage

Continue current service level – Increase in Temporary employee wage rates and usage for postage

\$22,000 – The Tax Department employs temporary employees to process incoming mail and perform data entry/verification functions during individual income tax filing season and to process Canadian Refund requests. We could not process income tax returns and Canadian Refund requests in a timely manner without the assistance of

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temporary employees. It is increasingly difficult to attract potential temporary employees at the starting salaries being offering. This request will allow the Department to increase the starting wage for temporary employees in the range of \$12 to \$13 per hour, which is a more competitive salary rate given the current job market.

\$199,315 – The Tax Department mailings consist of booklets, returns, billings, worksheets, and other correspondence. A mailing service performs sorting and processing of mail pieces to obtain a presorted discount rate for postage for the majority of department mailings. The inflation increase of \$199,315 will cover the projected mailing service rate increase which currently averages 4 to 4.5% per year, the anticipated increase in the number of pieces to be mailed at 4% per year, and a postage rate increase of 2%.

Change Group: A	Change Type: C	Change No: 100	Priority: 5
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AC100 - Equity adjustments

\$254,149 – In order to compete in the current tight job market the Tax Department needs to offer competitive starting salaries to attract qualified new employees. Since July 2012, the Tax Department has recruited for 32 vacant positions. The Tax Department has needed to raise the starting salaries for many of these recruitments to attract qualified applicants. The starting salaries for new recruits are near or equal to the salary of existing employees with more years of expertise causing a compression issue within most pay grades and positions in the agency. The Department needs the ability to offer salary increases to retain current staff in order to address any potential compression issues with long-tenured employees.

An analysis of the Tax Department's salaries shows that 97% of Tax Department employees with 15 or more years of services are not at their targeted C-Ratio (current salary/midpoint of pay range). 37% of the employees with 15 or more years of service are not at the midpoint of their pay range. In addition, 69% of the employees with less than 15 years of service are also not at their targeted C-Ratio.

To address a percentage of the equity and compression concerns, the Tax Department is including an optional adjustment package that uses the following parameters:

- Determines a target position in the salary range for each person based on 15 years to midpoint and 35 years to maximum of pay range.
- Identifies total amount needed to move to target position in range based on years of service.
- Calculated monthly amounts greater than zero and lower than \$25 are rounded up to \$25.
- Increases are limited to no more than \$200 and no more than 3%.
- Provides 20% of the total amount required to reach target.

Change Group: A	Change Type: D	Change No: 100	Priority: 6
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AD100 - oil impact pay differential

\$90,426 - Oil Patch Differential Pay. This request is for the continuation of a \$500 per month, per employee, pay differential currently being provided and necessary to retain employees in the Minot, Williston, and Dickinson field offices who continue to be impacted by the significant growth in the energy industry. The Tax Department does not provide rental assistance.

Change Group: A	Change Type: E	Change No: 1	Priority:
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Remove one-time funding for Taxpayer Access Point

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(\$1,000,000) – Remove one-time funding for Taxpayer Access Point

This budget change package removes the one-time funding appropriated to the Tax Department for the implementation of Taxpayer Access Point (TAP), a GenTax module. TAP will allow taxpayers to register their business, file and pay their taxes, and maintain their accounts online. The program is expected to be operational in late 2014. The allocation of funding received is as follows: \$65,000 – to ITD for project management oversight; \$935,000 – to FAST Enterprises for development, configuration, and integration with GenTax.

Change Group: A	Change Type: E	Change No: 4	Priority:
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Remove NDSU grant

(\$22,609) – This request removes the one-time funding for a grant to NDSU to update and migrate the legislative North Dakota Agricultural Land Valuation Model (required under N.D.C.C. § 57-02-27.2) to a software program supported by NDSU IT Services and implement safeguards into the conversion to assure the program continues to efficiently implement the provisions of this statute. This project was completed in December 2013.

Change Group: A	Change Type: F	Change No: 2	Priority:
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Remove capital assets

(\$16,000) - This budget change package removes the current biennium appropriation from the base budget for equipment over \$5,000. This adjustment is made per OMB guidelines.

Change Group: R	Change Type: A	Change No: 1	Priority:
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New FTEs to meet critical needs

\$553,599 and 4 FTE positions including a compliance officer, audit technician, property tax specialist, and research analyst due to the substantial increase in the following areas:

- The number of sales tax returns, income tax withholding returns, and individual income tax returns filed during the year each increased by approximately 33 percent since 2007.
- The number of nonresident or part-time resident individual income tax returns increased from 45,738 to 126,503, or 176 percent.
- The number of producing oil and gas wells in North Dakota increased from 3,868 to 10,015, or 159%. Production and sales volumes for each well are reported to the Tax Department monthly.
- The number of Canadian refunds processed more than doubled from 11,853 to 23,865, or 101%

Change Group: R	Change Type: A	Change No: 2	Priority:
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Multistate and Nexus

\$413,369 - restoring the Professional Services fees for the Multistate Tax Commission Audit and Nexus programs.

BUDGET CHANGES NARRATIVE

127 Office of State Tax Commissioner

Bill#: SB2006

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Change Group: R	Change Type: A	Change No: 3	Priority:
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GenTax support

IT Contractual Services object increase of \$200,000: This represents the increase in cost to maintain the Department's integrated tax system and newly implemented Taxpayer Access Point (TAP) module. The service contract covers the ongoing GenTax and TAP software maintenance, on-site support, service packs, and upgrades.

Change Group: R	Change Type: A	Change No: 4	Priority:
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Increase temp salary and postage

To allow for an increase in temporary employee wages and increases in postage costs.

Change Group: R	Change Type: A	Change No: 5	Priority:
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Homestead Tax Credit Expansion

Provides \$8.0 million to expand the Homestead Tax Credit Program eligibility by increasing the maximum income threshold from \$42,000 to \$50,000.

Change Group: R	Change Type: A	Change No: 100	Priority:
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Executive compensation adjustment package

This budget change provides funding for recommended 2015-17 compensation adjustments.